Proactive Approach to Tax Planning Brings Financial Benefits

Many small businesses leave their tax planning to just before the end of the financial year, resulting in an ineffective approach to one of the most important annual financial issues. Often a quick review of their situation reveals issues they should have identified and planned for three or even six months earlier. The result is a panicked approach and actions taken that may not have been properly thought through and may not benefit the business.

Tax Planning Should Not be Hurried

The approach taken by larger businesses and recommended by accountants is to review the financial reports several months prior to the end of the financial year. Any likely issues can be identified at this time and strategies discussed and agreed on well before final decisions need to be made. For example, one issue that many businesses face is uneven cash flow and provided this is being regularly monitored, it should be evident well before the financial year end if cash flow will be a problem.

There are a number of legitimate accounting measures that can be taken to improve cash flow. By delaying some payments until after financial year end that are deductible in the current year, cash flow is improved, the deductibility of the expense reduces profit and has a direct effect on tax liability. One example is that of wages paid to employees after financial year end. These can be claimed as a tax Brisbane deduction provided they relate to employment services rendered in the current financial year. Bonuses are in the same boat provided the amounts are documented and there is a definite commitment to paying them unconditionally.

Watch for Changes to Laws to Get Full Advantage

A change to the law effective from 1 July 2012 regarding the treatment of GST on hire purchase agreements for people who account on a cash basis is another opportunity. Previously, these businesses claimed GST progressively, that is, as each payment was made the GST was claimed which put them at odds with businesses who used accrual accounting. Now, both cash and accrual methods of accounting are treated the same way for GST purposes in that the GST is claimed up front when the first hire purchase payment is made. This can benefit the cash flow position of eligible businesses.

Changes that coincided with the introduction of the carbon tax were also made to assist small business to improve cash flow. Depreciating assets valued at less than $6,500 can be written off in the income year in which the asset begins to be used. This figure has been raised by $1,000 so there will be some effect on cash flow. In the same timeframe, small business can write off $5,000 of a car costing $6,500 or more in the year in which the car is first used. The remaining value is depreciated normally, so small business can improve cash flow by delaying vehicle purchases until after the financial year end.

These are just a few of the legitimate measures available to businesses that take a strategic approach to tax planning. With the sophisticated accounting software available it is relatively easy to run scenarios to see the effect on the bottom line. Discussing tax planning with your business accountant well in advance of tax time will bring plenty of benefits. Click here…

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